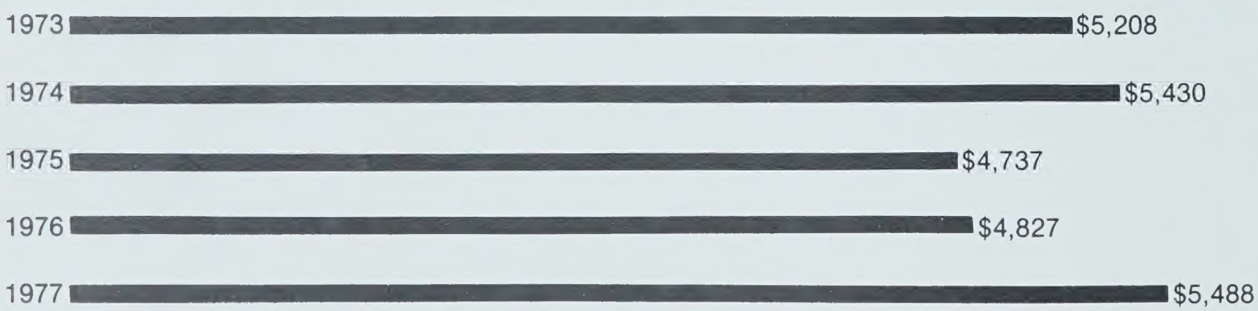
ANNUAL REPORT 1977
GREYHOUND COMPUTER OF CANADA LTD.

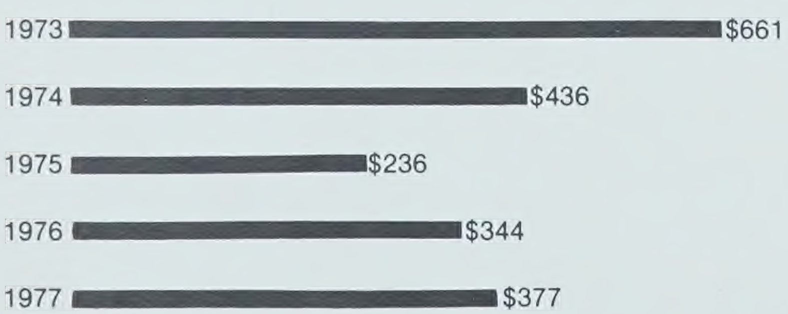
Financial Highlights

	For the year ended				
	Dec. 31, 1977	Dec. 31, 1976	Dec. 31, 1975	Dec. 31, 1974	Dec. 31, 1973
Revenue	$ 5,487,844	$ 4,827,087	$ 4,736,596	$ 5,429,657	$ 5,208,877
Income before Provision for Income Taxes	$ 757,791	$ 696,400	$ 474,894	$ 833,307	$ 1,283,187
Net Income	$ 376,791	$ 344,400	$ 235,894	$ 435,566	$ 661,113
Shareholders' Equity	$ 9,123,295	$ 8,746,504	$ 8,402,104	$ 8,166,210	$ 7,730,644
Earnings per Share	9¢	9¢	6¢	11¢	17¢
Computer Equipment Owned (at cost)	$30,048,431	$25,556,950	$25,356,806	$25,097,041	$23,974,562

Revenues (thousands)



Net Income (thousands)



1977 Report to the Shareholders

The past year was an encouraging one for Greyhound Computer of Canada Ltd. in terms of both operating results and additional investment. Importantly, the Company is in a good position to meet the challenges of 1978.

We are pleased to report improvement in revenues and net income for the second consecutive year. Net income for 1977 was $377,000, up from $344,000 in 1976. Revenues at $5,488,000 were the highest in the history of your Company, up 14 per cent from $4,827,000 in 1976. The financial highlights section on the opposite page shows pertinent data for the last five years.

During 1977, $8,726,000 was invested in additional equipment for lease. Included in this amount is a $4,000,000 purchase of an IBM 370/168 system on lease to the Government of Ontario and a $2,000,000 purchase of off-highway vehicles for a long-term lease to Advocate Mines in Newfoundland. The latter transaction was done in concert with Greyhound Leasing & Financial of Canada Ltd., another member of the Greyhound group of companies, which invested a like amount. While this transaction differs from our usual computer leasing business, it provided the Company with a good yield on a long-term basis.

All the equipment acquired during 1977, including the off-highway vehicles, qualifies for the 30 per cent capital cost allowance rate under the Federal Income Tax regulations. In addition, the off-highway vehicles qualify for a 10 per cent Investment Tax Credit.

Greyhound Computer's primary business is the marketing and management of IBM and other computer equipment in its portfolio and the purchase, sale and/or lease of additional computer equipment. Through the addition of larger memories, more powerful and higher capacity peripheral devices and a sophisticated, yet easy to use operating system, the IBM System /360 portfolio value has been enhanced by increases in its price/performance effectiveness. Your Company's portfolio of computer equipment has been augmented by selective purchases of IBM System /370 equipment, and it is planned to continue purchases of /370 and other newer IBM computer equipment as we are able to develop leases on acceptable terms.

Your Company continues to offer an attractive alternative to computer users who require powerful, cost-efficient computing systems. Greyhound Computer's IBM System /360 and /370 equipment provides an opportunity for cost-conscious present and prospective customers to realize substantial savings in their data processing operations.

It is of interest to note that your Company's independent auditor has issued an unqualified audit report on the financial statements for 1977 after three years of audit reports "qualified" due to uncertainties concerning recovery of investment in System /360 computer equipment.

The achievements of 1977 were due in large measure to the team effort of all Greyhound Computer people. Their contribution is gratefully acknowledged.

On behalf of the Board,

W. D. Maunder
President and Chief Executive Officer

Greyhound Computer of Canada Ltd. and Subsidiary Company

(Incorporated under the Canada Corporations Act)

Consolidated Balance Sheet

Assets	December 31 **1977**	**1976**
Cash	$ 15,677	$ 28,930
Receivables (Note A):		
Finance leases and other contracts due in instalments to 1983 ($640,048, 1977 and $724,035, 1976 due within one year)	2,788,390	1,323,219
Less unearned income	679,271	321,055
	2,109,119	1,002,164
Due from Greyhound Computer Corporation (Parent)	3,602	34,699
Accounts receivable, less allowance for doubtful accounts ($86,708, 1977 and $78,172, 1976)	298,061	157,801
Income taxes refundable	296,833	—
	2,707,615	1,194,664
Investment in Computer Equipment (Notes A and B):		
Cost	30,048,431	25,556,950
Less accumulated depreciation	17,092,745	15,146,269
	12,955,686	10,410,681
Equipment held for resale	49,788	26,000
Estimated residual value of equipment on finance leases	958,869	553,484
	13,964,343	10,990,165
Other Assets	76,321	70,706
	$16,763,956	**$12,284,465**

Auditors' Report

The Shareholders,
Greyhound Computer of Canada Ltd.

We have examined the consolidated balance sheet of Greyhound Computer of Canada Ltd. as at December 31, 1977 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants
Toronto, Ontario,
February 9, 1978

Liabilities and Shareholders' Equity	December 31 1977	1976
Short-term liabilities:		
Accounts payable — trade	$ 1,341,385	$ 164,109
Accounts payable — computer equipment	62,525	63,070
Accrued expenses	165,397	122,438
Rentals received in advance	84,847	130,968
Income taxes	17,645	763,161
	1,671,799	1,243,746
Long-term debt (Note C)	3,560,000	60,000
Deferred items (Note A):		
Income taxes	2,202,669	2,234,215
Investment tax credit	206,193	—
	7,640,661	3,537,961
Shareholders' equity (Note D):		
Capital stock, without par value		
Authorized — 6,000,000 shares		
Issued and fully paid — 4,000,000 shares	5,014,250	5,014,250
Retained income	4,109,045	3,732,254
	9,123,295	8,746,504
	$16,763,956	**$12,284,465**

On behalf of the Board

G. B. Clarke
Director

W. D. Maunder
Director

See notes to consolidated financial statements

Consolidated Statement of Income and Retained Income

	Year Ended December 31 1977	1976
Revenues (Note A):		
Computer rentals and sales, earned income and other	$5,487,844	$4,827,087
Expenses:		
Depreciation of computer equipment (Note B)	3,498,509	2,789,043
Other direct leasing costs	536,160	661,718
Interest on long-term debt	158,081	148,153
Selling, administrative and other operating expenses	537,303	531,773
	4,730,053	4,130,687
Income Before Income Taxes	757,791	696,400
Income Taxes (Note A):		
Currently payable	341,000	896,804
Deferred	40,000	(544,804)
	381,000	352,000
Net Income	376,791	344,400
Retained Income, January 1	3,732,254	3,387,854
Retained Income, December 31	$4,109,045	$3,732,254
Net Income Per Share:		
Based on average outstanding common shares (Note A-2)	$.09	$.09

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1977	1976
Source of Funds:		
From operations:		
Net income	$ 376,791	$ 344,400
Depreciation	3,507,417	2,789,043
Deferred income taxes	40,000	(544,804)
Investment tax credit utilized	114,300	—
Collections on finance leases	749,100	876,112
Earned income on finance leases	(174,867)	(283,319)
Total from operations	4,612,741	3,181,432
Disposals of computer equipment	574,205	344,309
Decrease in receivable from parent	31,097	—
Increase in short-term liabilities	428,053	161,577
Decrease in accounts receivable and other assets	—	126,166
Increase in long-term debt	3,500,000	—
Other, net	20,347	—
	9,166,443	3,813,484
Use of Funds:		
Purchase of equipment for:		
Operating leases	6,608,616	1,733,093
Finance leases	2,093,573	—
Increase in equipment purchased for resale	23,788	26,000
Repayment of long-term debt	—	1,928,531
Repayment of borrowings from parent	—	136,324
Increase in accounts receivable and other assets	453,719	—
	9,179,696	3,823,948
Decrease in cash	13,253	10,464
Cash, January 1	28,930	39,394
Cash, December 31	$ 15,677	$ 28,930

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1977

A. Significant Accounting Policies:

1. Principles of Consolidation

The accompanying financial statements include the accounts of Greyhound Computer of Canada Ltd. and its wholly-owned subsidiary, Canadian Computer Resources Limited, (The Company). All significant intercompany transactions have been eliminated on consolidation. The Company is 82.9% owned by Greyhound Computer Corporation.

2. Computer Equipment

Computer equipment is stated at cost. Substantially all IBM System/360 equipment is depreciated over ten years or to December 31, 1979, whichever is shorter, to a 10% residual value. Other IBM System/360 compatible computer equipment is depreciated to a 10% residual value to December 31, 1979. Currently owned IBM System/370 equipment is depreciated at 25% per annum on the declining balance method.

Equipment purchased for indirect leasing is depreciated at 30% per annum on the declining balance method.

Repairs and maintenance expenditures, including refurbishing costs, are charged to operations as incurred.

The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the equipment accounts. Gains or losses on sales or disposals of computer equipment are credited or charged to accumulated depreciation and amortized to income over the remaining life of comparable equipment.

3. Accounting for Revenues and Leasing Costs

Substantially all computer leases are accounted for on the operating method, and rentals are recognized as income when earned.

Certain leases are finance leases whereby non-cancellable rentals during the initial lease term exceed the original equipment cost. Finance lease receivables, unearned income and the residual value of the equipment are recorded when lease contracts become effective. The unearned income (representing the difference between the aggregate lease rentals and the cost of related equipment commissions and other direct expenses, less estimated residual value of the equipment at the end of lease term) is recorded as income on a declining basis over the life of the related lease.

The net gain on equipment sales transactions, which involve the purchase and resale of equipment, is included in revenues at the time of acceptance by the customer.

Substantially all selling and administrative expenses and direct costs associated with leasing equipment, including maintenance, refurbishing and relocation expenses, are charged to income as incurred.

Sales commissions are deferred and are amortized over the life of the related leases on a straight-line basis.

4. Currency Translations

Assets bought and sold during the year and transactions relating to net income in foreign currencies are translated into Canadian dollars at the rate applicable on the date of the transaction. Asset and liability balances in foreign currencies at the close of the year are translated into Canadian dollars at the rate of exchange then in effect. Differences on translation are charged to income currently or capitalized in the case of computer equipment purchased for leasing.

5. Income Taxes

Deferred taxes are provided on timing differences between tax and financial reporting and primarily consist of depreciation and income on finance leases.

Investment tax credits on equipment subject to finance leases are deferred and amortized by credits to income taxes on a declining basis over the term of the related lease.

Based on current estimates, it is expected that the deferred income tax balance will be reduced in each of the next three years by approximately $500,000 (1978); $675,000 (1979) and $750,000 (1980) due to the reversal of timing differences for which deferred income taxes were previously provided.

B. Investment in Computer Equipment:

The Company is a third-party lessor of data processing computer systems, principally IBM System/360 and System/370 and other equipment compatible with IBM. Substantially all computer leases are for initial terms of one to three years, and lease payments over the remaining non-cancellable terms are less than the Company's remaining investment of $12,955,686 in the related computer equipment at December 31, 1977. The computer rentals over the remaining non-cancellable terms of outstanding leases at December 31, 1977 are approximately $6,352,000 which are due as follows: $4,722,000 (1978); $1,318,000 (1979); $165,000 (1980); $94,000 (1981) and $53,000 (1982).

Substantially all computer leases are operating leases. Accordingly, the recovery of the net investment in computer equipment is dependent upon the Company's ability to renew existing leases or to re-lease or sell the equipment on expiration of outstanding leases at satisfactory prices. Direct expenses incurred in leasing returned equipment and loss of rent during turnaround periods between customers are substantial.

Many computer leases have passed their non-cancellable terms and are subject to termination on 90-120 days' notice, in some cases upon payment of cancellation penalties. The table below sets forth, on the basis of net monthly rentals, the approximate percentages of computer equipment subject to cancellation (exclusive of equipment on-rent to affiliated companies) at the end of 1977 and 1976.

	1977			1976
Equipment subject to lease cancellation within:	Subject to termination penalties	Without penalties	Total	Total
One year	8%	35%	43%	56%
Two years	3	49	52	29
Three or more years	—	5	5	15
	11%	89%	100%	100%

All IBM System/370 equipment was on-rent at December 31, 1977. On the basis of cost, the percentage of all other computer equipment off-rent was 16% at December 31, 1977 compared to 17% at December 31, 1976.

IBM's introductions of (1) certain lower-priced System/360 products, (2) System/370 computer equipment and (3) programs of granting discounts and other inducements for one to four year lease commitments on certain equipment, as well as competition from other sources, continued to result in significantly lower prices on sale and lease of the Company's System/360 equipment. In addition, IBM announced in 1977 three new computer models, the 3031, 3032 and 3033, having increased performance capabilities but priced below predecessor models, with volume deliveries commencing in 1978.

Increases and decreases in current sales values of IBM System/360 and System/370 equipment also affect the future rental rates and sales values obtainable for the equipment. While sales values have been relatively stable, continuing achievements in computer technology and the delivery of advanced computer equipment (including the recently announced lower-priced IBM series 3030 models), could significantly influence estimates of useful lives and future rental or sales values.

The Company has implemented certain programs to enhance the marketability of its System/360 computers, which include both extensions and modifications of the capabilities of the equipment itself (hardware) and operating and application programs (software) which improve customer utilization of the equipment.

The following table summarizes the Company's investment in computer equipment at December 31, 1977 and 1976:

	December 31, (000's Omitted) 1977		1976	
	Amount	Percent	Amount	Percent
Total IBM System/360, at cost	$20,451	100.0%	$21,821	100.0%
Less accumulated depreciation	14,770	72.2	13,575	62.2
	5,681	27.8%	8,246	37.8%
Total IBM System/370, at cost	6,069	100.0%	—	—%
Less accumulated depreciation	525	8.7	—	—
	5,544	91.3%	—	—%
Total other computer equipment	3,528	100.0%	3,736	100.0%
Less accumulated depreciation	1,797	50.9	1,571	42.1
	1,731	49.1%	2,165	57.9%
Total computer equipment, net	$12,956		$10,411	

IBM System/360 equipment was purchased primarily in the years 1968 and 1969. Based on present depreciation policies, the unrecovered investment in IBM System/360 computer equipment expressed as a percent of cost of such equipment to the Company for the two years ending December 31, 1979, on the basis set forth above, will approximate 16.8% (1978) and 10.0% (1979).

The Company anticipates continued declining rental rates and sales prices in its computer leasing operations with respect to presently owned equipment, favourable interest effects from cash flow, and increases in certain operating costs. After careful review and evaluation of all of the above factors, management believes that the Company will be successful in recovering the remaining carrying amount of computer equipment.

C. Long-Term Debt:

Loans payable to banks are guaranteed by the parent company and are subject to revolving credit agreements aggregating $8,000,000 with an interest rate of ½ of 1% in excess of the Canadian prime bank rate. As long as the Company maintains the required borrowing base no repayment is required; accordingly, no portion of the loans is classified as currently payable at December 31, 1977. However, indebtedness to any or all such banks not renewed by May 31, the annual renewal date, or not covered by continuing guarantees by the parent, becomes payable to such bank or banks over a term of three years.

The Company has contracted in each of the revolving credit agreements that it will grant security, at the request of the banks, on its equipment or leases and that it will not otherwise encumber its equipment (other than by purchase money mortgages) or leases in Canada.

D. Stock Option Plan:

Under the Company's Incentive Stock Option Plan 150,000 shares of the Company's capital stock have been reserved for purchase by officers and key employees of the Company and its related corporations. The price per share at which the options to purchase these shares may be exercised is the market price on the dates of granting the options. Options become exercisable in four equal annual instalments commencing one year after the dates granted, and expire five years from the dates granted.

As at December 31, 1977 options were outstanding on 39,000 shares as follows:

	Shares
To directors and officers: Granted May 14, 1974 at $.50 per share	29,000
To key employees of the Company: Granted May 14, 1974 at $.50 per share	10,000
	39,000

E. Commitments:

The Company has contractual commitments in respect of net long-term leases of real property which mature July 31, 1979 and July 31, 1980. Annual rents under these leases aggregate approximately $95,000.

F. Directors and Officers:

The Company has eight directors and nine officers, of whom three are directors. The directors received no remuneration as directors and the aggregate remuneration of officers for the year ended December 31, 1977 was $142,712 ($117,070, 1976).

The total remuneration of directors and senior officers (as defined by The Securities Act — Ontario) for the year ended December 31, 1977 was $191,789 ($166,602, 1976).

G. Anti-Inflation Legislation:

The Company is subject to the Federal Government's Anti-Inflation Legislation, which became effective October 14, 1975. This legislation limits increases in prices, profits and compensation. The Company believes it is in compliance with this legislation.

The Anti-Inflation Legislation also restricts any dividend to a maximum of $.027 per share until October 13, 1978.

Directors and Officers

Directors	Ralph C. Batastini, Phoenix Robert L. Borden, Calgary W. Carroll Bumpers, Phoenix Gordon B. Clarke, Phoenix W. Donald Maunder, Toronto Walter S. Owen, Vancouver Olie E. Swanky, Phoenix Hugh P. Thomas, Toronto
Officers	Olie E. Swanky, Chairman of the Board Gordon B. Clarke, Vice Chairman of the Board W. Donald Maunder, President and Chief Executive Officer Ronald J. Camsell, Vice President Leonard J. Micallef, Controller and Assistant Secretary Frederick G. Emerson, Secretary Robert C. Kibler, Treasurer Levon Kasarjian, Jr., Assistant Secretary Ted A. Price, Assistant Secretary
Auditors	Touche Ross & Co., Chartered Accountants
Registrar and Transfer Agent	The Royal Trust Company
Stock Listing	The Toronto Stock Exchange
Bankers	Bank of Montreal Canadian Imperial Bank of Commerce The Royal Bank of Canada The Mercantile Bank of Canada
Head Office	Guardian of Canada Tower 181 University Avenue, Suite 1416 Toronto, Ontario M5H 3M7
Annual Meeting	The annual meeting of shareholders will be held at 10 a.m. on Tuesday, May 2, 1978 at the offices of the Board of Trade of Metropolitan Toronto, 3rd Floor, First Canadian Place, Toronto, Ontario.